



CITY OF DURHAM

Memorandum

Date: April 27, 2011

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Mike Barros, Director
Department of Community Development
Subject: Modifications of Loan Terms and Loan Repayment Period
Durham Housing Authority-Edgemont Elms Apartments

Executive Summary

The Department of Community Development is recommending approval of modifications to a loan that was provided to the Durham Housing Authority (DHA). The original loan in the amount of \$1,057,879.00 currently has an outstanding balance of \$402,359.35 (as of April 05, 2011). The initial loan repayment terms were based on a 0% interest rate deferred for the first five (5) years and amortized over 15 years, with a balloon payment at the end of the amortization period on July 3, 2009.

Recommendation

The Department of Community Development recommends that the City Council authorize the City Manager to execute the Modification Agreement for the Durham Housing Authority to defer loan repayments until January 1, 2014, with a term of ten (10) years at 2% interest.

Background

On July 3, 1989, the City of Durham executed loan documents for second mortgage financing in the amount of \$1,057,879.00 with the Durham Housing Authority. The loan was at 0% interest rate, and amortized over 15 years with a final balloon payment due at the end of the amortization period. The subordinate loan was used to assist in the development of affordable rental housing units for low to moderate income tenants.

To help create and maintain the affordability of the housing units, the repayment terms and conditions were unconventionally structured, as compared to the financing of the banking and mortgage lending industry.

Although the loan was not subject to a rate of interest, a monthly loan servicing fee equal to one-half of one percent (1%) of the annual outstanding balance was due, in addition to the monthly principal payment. The 15 year term during which the loan was to be repaid was scheduled as follows: 1) repayment of the loan was deferred for the first five (5) years from the date of the First Loan Advance (months 1-60); 2) the first payment was due and payable the first day of the 61st month; 3) monthly payments were due and payable each month for ten (10) years until and including the 180th month after the First Loan Advance; and 4) on the first day of the 181st month after the First Loan Advance, the entire remaining unpaid principal balance was due and payable in full. The monthly payment amounts that were due and payable are outlined below:

- Months 61 through 120 \$1,667.00 monthly plus servicing fee
- Months 121 through 180 \$3,967.00 monthly plus servicing fee
- Month 181 Remaining outstanding loan balance

Although the loan was due and payable in full on July 3, 2009, the borrower continues to make monthly payments of \$3,967.00 and is current.

Edgemont Elms is a 58-unit rental development that occupies 4.33 acres and is located adjacent to the HOPE VI project area. The rental development has 11 dwelling buildings that consist of 40 two-bedroom units and 18 three-bedroom units. Forty-two of the 58 units (72%) are currently occupied by households whose incomes are at or below 60% of the area median income. Because the property currently does not have office or meeting space, one unit will be converted to become an office and meeting space.

Edgemont Elms Apartments have a neglected, run down appearance due to un-kept vinyl siding and eroded landscaping. The reason for low occupancy is due to the condition of the property with no major renovations occurring since it was built. Without major improvements, complete occupancy will not occur. During FY 2009, Edgemont Elms Apartments experienced an operating loss of approximately \$147,000.00 and in FY 2010 the operating loss was approximately \$111,000.00. Current debt service is projected to account for 36% of annual expenses for FY 2011.

A Physical Needs Assessment performed by the DHA identified the need for major rehabilitation of the Edgemont Elms Apartments with an estimated amount of \$2,400,000.00. Some examples of the rehabilitation will include

exterior site improvements, window and door replacement, repair and paint interior walls, replacement of all existing flooring, removal and replacement of existing roofing shingles, removal and replacement all existing cabinetry and counter tops, renovation of all kitchen and bathrooms, upgrade all mechanical, plumbing and electrical systems.

The primary funding sources for the rehabilitation are DHA's Turnkey III funds which they do have on hand and Replacement Housing Factor funds which are available for drawdown as expenditures are made. DHA has obtained approval from the U.S. Department of Housing and Urban Development (HUD) to use these funds for the project. The rehabilitation is scheduled to be completed in the fourth quarter of 2012.

Edgemont Elms Apartments



Issues/Analysis

In an effort to assist with maintaining the viability of the Edgemont Elms property and meeting affordable rental housing needs, the proposed deferment of loan payments until January 2014 meets the City's goal of providing safe, decent and affordable housing for City of Durham residents. Loan repayments are deferred until rehabilitation is complete, including initial lease-up period, and then a ten year term at a 2.0% interest rate will be implemented.

DHA has a first mortgage loan modification commitment from Mechanics and Farmers Bank. Payments will commence in May, 2011. The following information specifies the loan modification and renewal terms:

- No new funds shall be disbursed with the modification/extension
- Type of Loan: Real Estate
- Loan Amount: \$445,300.00

- Interest Rate: 6.25 fixed
- Interest only term: 35 months (based on 360-day calendar year)
- Repayment Terms: Interest due and payable in 35 payments ranging from \$2,396.58 to \$2,164.65 with one remaining payment of all unpaid principal and accrued interest due at maturity

Alternatives

The loan deferral enables the DHA to fulfill its financial commitment to the First Mortgage lender and provides the opportunity to restructure and reduce their debt service after rehabilitation of the units is complete. It is the goal of the DHA to operate Edgemont Elms in a financially self-sustaining manner. Without the loan deferral, DHA will continue to experience a deficit in operating income.

Financial Impact

The following information outlines the City's return on investment:

- The current loan ballooned on July 3, 2009;
- The loan amount owed to the City after the ten year deferral plus a 2% interest rate: $\$402,359.35 + \$41,910.33 = \$444,269.68$
- The monthly payment after deferment: \$3,702.25.
- The term of loan after deferment: 10 years
- Maturity Date: January 1, 2024
- Total gains for the City: \$41,910.33

Attachments:

- Attachment A – Pro Forma Assumptions
- Attachment B - Pro Forma